

January 9, 2007

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 3766 – Gas Cost Recovery (GCR)
Deviation from the Gas Purchase Incentive Plan

Dear Ms. Massaro:

The purpose of this letter is to inform the Commission of the Company's plan to deviate from the existing Gas Purchase Incentive Plan ("Plan")¹ and to make some additional purchases that effectively would accelerate a portion of the mandatory purchases under the Plan for the period November 2007 to March 2008.

The anomalously warm weather experienced during the current winter has caused gas prices to drop significantly below those embedded in hedging purchases and current GCR rates. In light of these market events, the Company has been engaged in discussions with the Division of Public Utilities and Carriers ("Division") and its consultant, Bruce Oliver, to determine if any actions should be taken to accelerate mandatory purchases that would effectively act as a partial hedge for next winter at the prices available at this time.

In the course of those discussions, the Company has agreed with the Division to accelerate approximately one-half of all remaining mandatory purchases for the November 2007 to March 2008 period and, in consultation with the Division, make those purchases over the next week or two. Like any hedge, these purchases will not guarantee that commodity prices to customers next winter will be lower than if the Company simply continued the mandatory plan. However, in the judgment of the Division's consultant and the Company, locking in more commodity purchases at the prevailing prices being seen today is perceived by the Division and the Company as a reasonable hedging strategy at this time.

¹ The Plan was approved by the Commission in Order No. 18273 (June 16, 2005), with minor modifications approved at the Open Meeting on October 31, 2006, in the above-captioned docket.

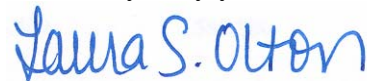
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The Company and the Division also have agreed to exclude these purchases from the calculation of the benchmark used to determine the incentive or penalty under the Plan. As such, the actions taken would have no impact on the incentive/penalty results for these months.

Because of the exceptional volatility evident in natural gas prices, this opportunity to lock in the prices prevailing today may be short lived. Given the Commission's prior Orders and precedent, it is the Company's understanding that it is unnecessary to obtain formal Commission approval of this transaction. Thus, unless the Company hears otherwise from the Commission by close of business Thursday, January 11, 2007, the Company will proceed to accelerate mandatory purchases as described above.

If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Laura S. Olton

cc: Docket 3766 Service List
Paul Roberti, Esq.
Steve Scialabba, Division

Certificate of Service

I certify that a copy of the cover letter and materials accompanying this certificate were mailed or hand-delivered to the parties listed below.



Date: January 9, 2007

Joanne M. Scanlon
National Grid

Docket 3766 – National Grid – Annual Gas Cost Recovery (GCR) Service List as of 9/13/06

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